■ RETAILERS FOR THE 1990s • THE NEW EUROPE • TRUMP'S TROUBLES ■

DECEMBER 18 1989

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FORTUNE

HOW AMERICA CAN TRIUMPH

By balancing the budget and raising productivity, the U.S. can lead the world into the 21st century. Here's what to do.

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America has to show the way to an open global economy by example as well as by rhetoric.
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ABOVE: A mass swearing-in of new U.S. citizens in Miami photographed by Carol Guzy/ Miami *Herald*–Black Star.

COVER: The American flag photographed by F. Selb–H. Armstrong Roberts.

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HOW AMERICA CAN TRIUMPH 52
The U.S. enters the 1990s bristling with opportunity. A world of increasingly shared power still needs leadership, and America remains the logical candidate to provide it. But that role will almost certainly pass to others if the U.S. fails to strengthen its economy. It must speed the growth of productivity, the engine of wealth, and eliminate the federal budget deficit. The result could be rising living standards, soaring profits—and a real interest rate of 1%. FORTUNE lays out the policies for achieving such a future. *by Louis S. Richman*

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"I don't think anybody loves hearing that she's tough or difficult. I certainly don't, but I've learned to live with it."

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"We recognize that we are swimming in uncharted waters."

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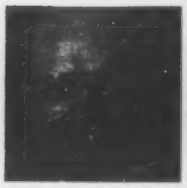

"It has been slogging hard work."

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"Twenty-seven percent of the people I operate on for a coronary bypass have normal cholesterol levels."

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"You know I don't take 10 cents out of my own bank to do a deal."

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EDITOR'S DESK

JAMES (LUCKY) SHARP

Cover editor Burck and writer Richman: the happy consequences of sounder policy

TIRED OF HEARING all the laments about the sad state of the U.S. and its economy? We aren't productive enough. We can't save. We don't export the way we used to. The end of the American century is nigh. Well, it isn't necessarily so.

In our cover story, writer Louis Richman shows that the U.S. can lead and prosper in the 21st century. He tackles a basic question: What, precisely, would the economy look like if we did the right things about productivity and the federal deficit? "Success doesn't require heroic undertakings or spartan behavior," says senior editor Charles G. Burck, who conceived the story. "It rests on behavior that we've exhibited in the past."

CHRIS DAVIES—NETWORK

Richard Kirkland

Richman, assisted on the story by reporter Richard Teitelbaum, was intrigued by the central paradox of American post-war experience. "The U.S. finds itself at the beginning of a new decade having largely succeeded in all it set out to do at the end of World War II," he says. "Yet it is still troubled by a sense of relative decline." He asked the St. Louis economic forecasting firm of Laurence H. Meyer & Associates to model the economic consequences of sounder policy. The potential benefits are enormous. And how to get there may surprise you.

Another story in this issue focuses on what the revolutionary changes in Europe, East and West, mean for business. Our Politics & Policy editor, Richard I. Kirkland, drew upon expert contacts he had developed in four years as our European editor. His article offers a business Baedeker of Eastern Europe, some do's and don'ts, and the factors that any company can't afford to ignore.

One of our most popular annual features is Products of the Year, which you saw in our last issue. But why not run a collection of great gizmos more often? With this issue, we do just that, in a new feature titled Products to Watch (page 148). Price, as they say, is no object. Nor is size. What counts is that the product is innovative and at least shows signs of flying off the shelves. In our maiden voyage, associate editor Edward Baig takes us through products ranging from $1.89 to more than $30,000.

Marshall Loeb

MANAGING EDITOR

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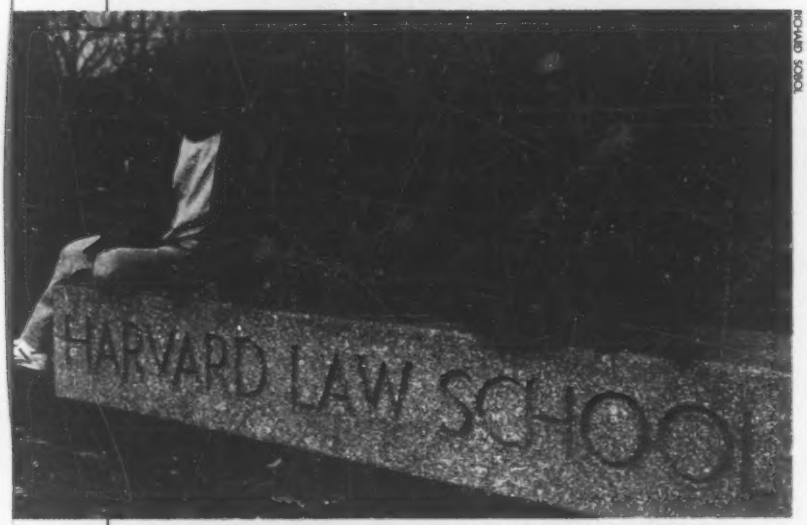


RICHARD SOBOL

Channeling resources: Ferrell (second from left) and classmates

HARVARD LAW'S PRO BONO STUDENTS

■ It is time to rethink the notion that fast-track law school students are motivated by greed alone. The National Association of Students Against Homelessness (Nasah) has raised some $38,000 for the needy by touching a philanthropic nerve in the law firms that want to hire them.

The idea was born last year when Harvard law student Joseph Anderson was working as a summer associate with a New York City law firm. A homeless man dropped to his knees and begged for food money as Anderson headed home after a meal in the SoHo district. Anderson was struck by the disparity between the frills lavished on him by law firms that had interviewed him and the poverty of the homeless. Says he: "I saw the excess as a resource that could be channeled to other means."

Other law students had similar experiences. So they cooked up a plan whereby students on the interview circuit may opt to stay in modest hotels and eat in less expensive restaurants. The interviewing firms donate the difference in costs to shelters for the homeless. When students fly to interviews, they book through a travel agency that turns over 50% of the commission to the needy. More than 600 of Harvard law school's 1,100 second- and third-year students who are now job hunting take part in the program. Says student Lisa Ferrell, 26, a director of the program: "There's a massive response that proves we care." Ferrell says she has been saving $30 a night on hotels while on the road interviewing and $45 a lunch for her and prospective employers. With four interviews so far, that comes to $300.

Students at 13 other law schools, from Yale to UCLA, have set up Nasah chapters. And about 150 law firms, including New York City's **Debevoise & Plimpton** and Boston's **Bingham Dana & Gould**, are participating. **– Peter Nulty**

SELLING THE TWIN CITIES

■ One evening this summer, Jodi Dehli, a management consultant with **Deloitte & Touche** in Minneapolis, was canoeing with an investment banker friend on one of Minnesota's fabled 10,000 lakes when they started to laugh: Their business school classmates who'd taken jobs in New York were probably still fighting the subway.

They decided to spread the word that Minneapolis and its twin city, St. Paul, offer a lot to MBAs. Says Dehli, 27: "We decided to market the lifestyle."

Eleven corporations with headquarters or branches in the Twin Cities—**Pillsbury**, **Northwest Airlines**, **General Mills**, **Medtronic**, and **Coopers & Lybrand** among them—liked the idea. They agreed to contribute $2,500 each to underwrite a plan to visit five top business schools in an effort to convince newly minted MBAs that the cities are the place for them. Dehli's employer gave her five days off.

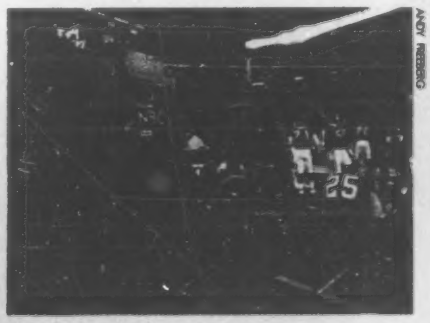
The Twin Cities Recruiting Campaign—led by Dehli, her canoeing friend Todd Peterson, and four other local MBAs—hit the road in November. They spoke to students at Harvard, Wharton, Kellogg, Stanford, and the University of Chicago's graduate school of business, Dehli's alma mater. The response has been good. More than 20 students contacted Dehli's firm alone, requesting job interviews. "Students at business schools are older than they used to be," she says. "There are more dual-career couples now. Where one lives and the quality of life a city has to offer are more of an issue than they used to be." **– Rahul Jacob**

STEVE WOIT

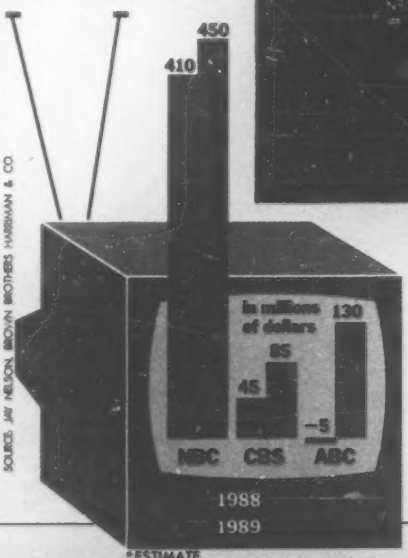
Dehli, lakeside near her home

WILD SPORTS BETS AT THE NETWORKS

■ The bidding war for the rights to televise sports events has turned furious. CBS will lay out $1 billion for exclusive rights to broadcast National Collegiate Athletic Association basketball tournaments over seven seasons, and other NCAA events. Among other recent deals: CBS also will pay $1.1 billion to broadcast four



ANDY FREEBERG



SOURCES: JAY NELSON BROWN BROTHERS HARRIMAN & CO.

GAME SHOWS
NBC and CBS are betting billions that sports events will win new viewers—and, eventually, profits. But will they really ever get their money back?

years of major league baseball. NBC, meanwhile, will lay out $600 million for four seasons of National Basketball Association games through 1993-94 and $401 million for the 1992 Barcelona Olympics.

ABC, which dropped out of several recent contests, seems numbed by these prices. Says Dennis Swanson, president of ABC Sports: "At some point you've got to ask yourself how much money you want to lose."

The sums being paid astonish investment analysts. Says Jay Nelson of Brown Brothers Harriman: "I just don't get it. They don't even seriously claim they'll be able to turn a real profit. I thought the goal of business was to make money." Responds NBC's senior vice president Betty Hudson: "We don't get into anything that wouldn't turn a profit." By all estimates, NBC's network operations earn the most pretax (chart). But cable, local stations, and Rupert Murdoch's **Fox** network continue to gain viewers—and the Big Three networks need to respond.

It's unlikely that CBS and NBC can get their money back by boosting ad rates. The current prices—$257,700 for a 30-second spot during last year's NCAA college basketball finals, for example—are about as much as advertisers will pay. Many TV sports contracts limit the number of ads per game.

Television programmers believe sports events draw a big audience that will stay tuned to whatever program follows. When Neal H. Pilson, president of CBS Sports, announced the baseball contracts, he described the deal as a "building block" that would help the third-ranked network become No. 1. After announcing the college basketball contract, he said, "CBS is following a big-event strategy. We think it is a good gamble, considering the popularity of the tournament over the last ten years. Sure there's a risk, but the future of the tournament looks very strong."

Even so, CBS remains the most troubled network. The question now: What will CEO Laurence Tisch do with the company's cash hoard of $2.8 billion? **– J. B. Blank**

WHO'S GOT TRASH-TO-ENERGY PLANTS

Company	In Operation	Under Construction or Contract
Ogden Projects	13	14
Wheelabrator Technologies	10	4
Foster Wheeler	3	6
Combustion Engineering	3	2
Westinghouse Electric	2	6
American Ref-Fuel	1	2

Environmentalists would like to keep these numbers from growing.

GARBAGE DISPOSAL: THE ONGOING WAR

■ The business of burning trash to create electricity still emits more than a few hot sparks. A new foreign player has taken over one of the six major U.S. firms in the business. Meanwhile, the Environmental Protection Agency threatens to put more restrictions on all refuse-to-energy plants. And Nimbys—the "not in my backyard" citizens who are fearful of toxic emissions from such plants—are winning legal battles to prevent their construction and use.

Ogden Projects, a subsidiary of **Ogden**, a conglomerate, and **Wheelabrator Technologies**, recently spun off by **Henley**, another conglomerate, lead the industry (table). Now a third conglomerate, Swedish-Swiss **Asea Brown Boveri**, has paid $1.6 billion for **Combustion Engineering**, a company plagued by technical problems. ABB will give it the financial support it needs to compete.

The EPA wants to ban any burning unless the municipalities that use incinerators recycle 25% of their garbage. The refuse-to-energy industry argues that all trash—including the stuff headed for landfills—should be subject to the same rule. Americans generate 160 million tons of garbage annually; 80% still ends up in fills.

Many citizens are convinced that these incinerators spill harmful dioxins or contaminate water supplies. They have persuaded local authorities in Los Angeles and Philadelphia, among other places, to scrap planned projects.

Operators of waste-to-energy plants are happy to separate recyclable material as long as they can sell it. Most already sort out ferrous metals, selling them as scrap. But doing this with other materials is not always a guaranteed sale because there are no reliable markets. As a result, many materials, like all-too-familiar curbside bundles of newspapers, are likely to remain just garbage.

– Susan E. Kuhn

TOP TRAVEL SPOTS FOR THE 1990s

■ Ah, the winter vacation. Time to pack and head to—Australia? You bet, says **American Express**, which surveyed 450 of its travel agents to find

The Great Barrier Reef in Australia: where Americans want to go

MCLAUGHLIN—THE STOCK MARKET

RETAILING'S WINNERS & LOSERS

War at the store will decimate merchants in the 1990s. Survivors will be narrowly focused, technologically advanced, and lightning quick to spot the trends. ■ *by Bill Saporito*

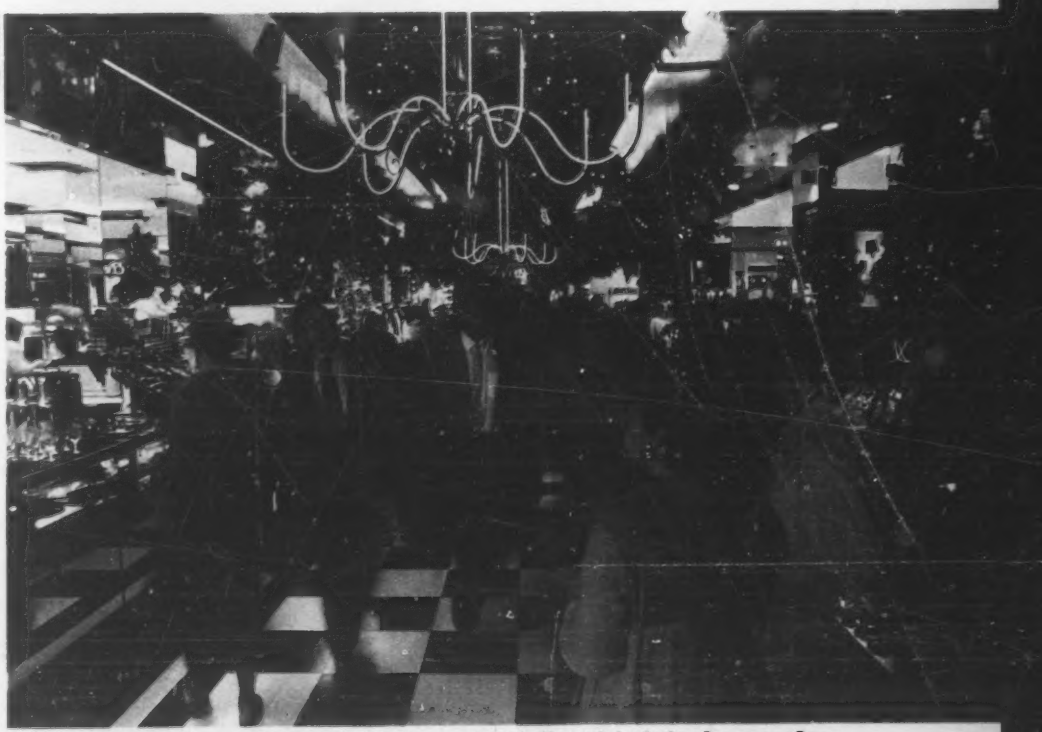
IN OCTOBER, David Glass, conductor of retailing's hallelujah choir, Wal-Mart Stores Inc. of Bentonville, Arkansas, treated a lunchtime gathering of merchants to some sour notes. He predicted that were he to address the same group in 1999, only 50% of the companies would be around for coffee. Though the genteel New York *Times* headlined Glass's speech RETAIL SHIFT IN U.S. SEEN, the content deserved tabloid treatment—CHAIN STORE MASSACRE.

Since then B. Altman, the venerable chain run into the ground by the blunderers from Down Under, Hooker Corp., announced its liquidation sale. An additional 170 stores are on the clearance table, victims of too much leverage, too many stores, too much game-playing with prices, and the same kind of merger and acquisition engineering that plagues other industries. Even Bloomingdale's, the flagship of Federated Department Stores and for years the industry trendsetter, is up for sale, as new owner Campeau Corp. struggles to meet the payments on its $10 billion debt.

Merchants are worried that Bloomies and other troubled retailers will kill the Christmas selling season for everybody by taking early markdowns to generate desperately needed cash, a charge Bloomingdale's CEO Marvin Traub heatedly denies. Nevertheless, a markdown psychology may take over. Says Frank Pasquerilla, chairman of Crown American, owner of Hess's Department Stores: "It's already happening." Even if Christmas 1989 isn't a calamity, the decade following surely will be.

The goal in retailing never changes—the right stuff in the right place at the right price. But the dynamics of the industry are such that the better companies are pulling away from the pack at an accelerating rate. The speed will kill, because real retail sales growth will be only 2.5% or less in the 1990s, vs. 4% or more from the mid-1970s through the 1980s, according to the accounting firm of Ernst & Young. When store growth outstrips market growth—and it has—somebody must close his doors.

REPORTER ASSOCIATE *Reed Abelson*



ANDY FREEBERG

Federated's crown jewel, Bloomingdale's, is on sale to bail out debt-laden Campeau Corp.

Armed with better technology to keep track of sales and react to consumer wants, and a clear identity in shoppers' minds, companies such as Dillard Department Stores, the Limited, R.H. Macy, Nordstrom, J.C. Penney, and Wal-Mart are beginning to exert enormous pressure on their competitors. By the turn of the century, says Thomas Rauh, director of retail consulting for Ernst & Young, each retail category will have no more than half a dozen, and perhaps as few as two merchants accounting for as much as 60% of retail sales, more than twice as much as they do now.

Industry experts say the nation's two biggest shopkeepers, Sears and K mart, which between them produced $1.6 billion in retail pretax profits last year, are likely to lose out in such a future. Each company is trying to stir up a sedentary organization, but their competitors are recasting just as quickly. Sears must cope with a resurgent J.C. Penney, while K mart is planted directly in the Northeastern expansion path of the other Mart from Bentonville.

To survive in the 1990s and into the next century, retailers will have to master a new set of requirements. Among them:

CLAUDIO EDINGER—GAMMA/LIAISON

RUSSELL MONK

The ghosts of Christmas future and past: Wexner (above), a merchant as hip as the Limited specialty stores, and Robert Campeau, strapped with $10 billion in debt.

■ **TECHNOLOGY.** The computer age, odd as it sounds, is about to rip retailing apart. J.C. Penney, for instance, can spot a great garment in Italy and fly the piece to Dallas, where it is recreated on the computer. While a video image is being shown to a focus group, the specs are being transmitted to a manufacturer in the Orient. If the focus group likes the garment, Penney can have it in its stores in weeks rather than months. That speed gives Penney—yes, Penney—a competitive edge in offering fashionable merchandise. Those companies like Wal-Mart that can master distribution technology—that is, the ability to replenish inventories so that a store is never out of stock—will have lower costs and so be able to cut prices and put pressure on already price-sensitive discount stores.

"When our customer goes into a store, she wants to see something new and she wants to see it now."

■ **IDENTITY.** The mass market is dead. Retailing consultant Carol Farmer and others believe the industry is polarizing, with commodity goods sold in megastores at rock-bottom prices at one end and specialty items with realistic but not necessarily low prices at the other, and nothing profitable in between. Says Farmer: "The Nineties will be the age of positioning."

Specialty stores in particular will have to pay attention to shifting demographics and lifestyle trends. The Limited, for instance, forced its Express stores to grow up as its prime customers matured. Once a playground for post-adolescent girls, Express now caters to contemporary women with sophisticated clothing presented in rich-looking, black-and-cream-colored marble stores. The company's annual report features these words in bold type from Chairman Leslie Wexner: The key is OUR ABILITY TO CHANGE.

■ **MARKETING.** One size, or store, does not fit all. Though national chains offer consumers consistency, the action is increasingly local. Recently two shoppers in a Gap store in a Boynton Beach, Florida, mall asked the clerk for shorts. "We don't have any," came the reply. Nor were any expected. Indeed, the same arrangement of dark, heavy-looking garments covered the walls in tropical Florida that one would likely find in frozen Minneapolis.

Retailers who use the information their computers give them about consumer buying patterns will win. In the same Florida mall, Macy's had carefully tailored its inventory to local, middle-class shoppers: No dresses the price of a small Toyota. Those were available down the road in Macy's West Palm Beach store.

■ **SERVICE.** Ah, yes, in case you hadn't noticed, the industry's most intractable problem. As consumers get older—and they will get older in the 1990s, with the 44- to 55-year-old gang growing as fast as their waistlines—they appreciate more service. Unfortunately, the pool of 18- to 34-year-olds who are supposed to provide the service is shrinking.

Service doesn't necessarily mean having a person actually wait on you. But it does mean that whether the store is self-service or has hot-and-cold-running clerks, the inventory is plentiful, the merchandise is well presented, and the necessary information is clearly displayed.

WILL PEOPLE STILL SHOP in stores? Absolutely. But consumers are changing their buying patterns, and this has meant bad news for department stores. The Limited's Wexner notes that women used to snake dance through the malls, starting at a department store and then stopping at each and every boutique. Women don't have that kind of time anymore: They go to the mall with a store and purpose in mind—the discounter for staples and the specialty store for clothing.

In the last half of the 1980s, discount stores actually overtook department stores in unit sales of apparel. Meanwhile specialty stores, with a narrow range of merchandise carefully chosen for the needs of executives and other people with more money than time, creamed off the upper end of the department store market. The big outlets also lost their credibility with shoppers on price. According to industry consultant Walter K. Levy, 65% of consumers now wait for sales, up from 50% in 1984. The demographics of aging may rescue some department stores, but only those that really do offer higher-quality goods and better service. Among the survi-

vors: Dillard, R.H. Macy, and Nordstrom.

For the past two years emporiums such as Macy's and Bloomingdale's have been converting their sales staffs to commission selling, a practice epitomized by Nordstrom, the Seattle chain whose reputation for service is unparalleled. With commissions of about 7% of the sale and a culture that worships the customer, the company has created a professional cadre of motivated salespeople known for their ability to sell more than one item to a customer in a single transaction. Nordstrom is spreading that religion east with stores in Virginia and others planned for several mid-Atlantic states.

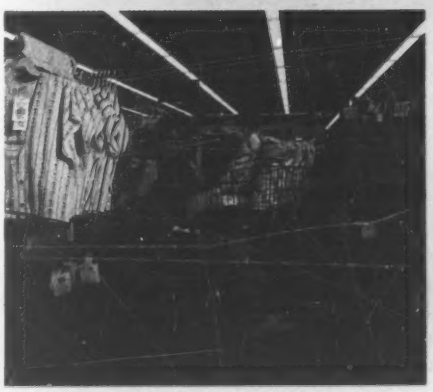
MANUFACTURERS, not satisfied with the pace of change and worried about how their products are sold, are stepping in to help train department store workers (see box). For instance, Hartmarx, a manufacturer of expensive men's suits under Hickey-Freeman, Hart Schaffner & Marx, and other labels, soon will officially open Hart Schaffner & Marx U, as in university. The company will be accepting students from department and specialty stores to teach them how to proffer the customer a high-quality suit. If a guy is going to lay out $500 for fancy threads, then someone had better be around who knows something about the material, says Hartmarx CEO Harvey Weinberg. "There's too much clerking and not enough selling. We are going to address that."

The department stores also plan to use inventory as a competitive weapon. Where once they were out of stock some 20% of the time, now no more than 5% is permissible. Companies such as R.H. Macy tackle the problem by picking their assortments carefully and then buying big quantities. Dillard takes the measured approach of highly computerized inventory control.

The low estate that some department stores have fallen into can be gauged by the intentions of the Limited. Twice in the past five years, the specialty merchant tried unsuccessfully to take over Carter Hawley Hale, the big California department store operator. Now Saks Fifth Avenue, Marshall Field's, and Bloomingdale's are all for sale, but the Limited has shown nary a sign of interest.

Instead, its goal is to dominate market niches in women's apparel, from large sizes via Lane Bryant, to lingerie with Victoria's Secret and a naughty new entry called Cacique, purveyor of French unmentionables. Wexner is raising the ante for his specialty

BRIAN SMITH (3)



Good signs, wide aisles, and low prices make shopping easy at Wal-Mart's spruce emporium in Sunrise, Florida. The store even provides wheelchairs for the handicapped.

competitors—Claire's Stores, Petrie Stores, and U.S. Shoe, which owns Casual Corner—telling them, in effect, to get big or get lost.

BEHIND THE GLAMOUR at the Limited is a fashion distribution machine designed to move apparel as if it were fruit. Says Wexner: "Our customer doesn't give a damn that we've been in business for 25 years. When she goes into a store, she wants to see something new and she wants to see it now." The Limited will place orders only with manufacturers that can deliver to the stores within 60 days—and on occasion 15—and Wexner wants to compress the cycle even further. More laid-back retailers are ordering now for next summer.

Among the discounters, most analysts are already ceding the No. 1 spot in total retail sales to Wal-Mart by the mid-1990s. This is bad news for K mart, whose chief executive, Joseph Antonini, vowed in October to "remain the price leader across America." But he can't unless he improves K mart's basic operations. In the K mart in Sunrise, Florida, recently, shoppers found hundreds of items out of stock because no one had replenished them. Aisles were clogged with empty boxes, and goods were haphazardly displayed. The mess was in glaring contrast to the Wal-Mart down the street, a 115,000-square-foot giant, one of the company's biggest stores, stuffed with low-priced goods, yet still easy to get around in.

Wal-Mart demonstrates that operating

ability is a competitive advantage. The company is growing at a rapid clip of some 35% a year, but each dollar of those sales is more powerful than one taken in by competitors. Consider: Wal-Mart generates 9% more sales per square foot than a typical store. That means the company turns its inventory faster than its rivals do and at lower cost, because the quicker the goods move, the less Wal-Mart has to borrow to carry them. This relationship is expressed as a ratio called gross margin return on inventory, and Wal-Mart's is 1.41, vs. the industry's 1.29. Because the company earns more on its inventory investment, its operating profit margin is bigger too—7%, compared with the industry's 6.3%.

Such ratios can make magic. With lower operating costs, Wal-Mart can charge less and earn more: The company's gross margin—gross profit divided by sales—of 23% is lower than its competition's. K mart's gross margin is 28%, for example. But Wal-Mart's net profit is 4% of sales, compared with the industry average of 2.9%, providing the funds to stoke its expansion fire. The beauty is that selling merchandise for less has a tendency to increase sales, making Wal-Mart even more efficient. The scary part, at least for competitors like K mart, is that Wal-Mart will likely reduce its prices further as it becomes ever more efficient. *continued*

HOW THE STORES STACK UP

RETAILER Headquarters	OPERATIONS	RETAIL SALES* (Millions)	PRETAX PROFITS (Millions)	INTEREST EXPENSES (Millions)	5-YEAR GROWTH RATE**	COMMENTS
MASS MERCHANTS						
Montgomery Ward Chicago	Montgomery Ward	$4,784	$182 [1]	$153 [1]	17.9% [1]	An LBO holding its own by becoming a specialty retailer.
Sears Roebuck Chicago	EyeMasters, Sears, Sears Business Systems Center, Tire America, Western Auto	$30,256	$333	$1,093	(25.39%)	A colossus in crisis. The switch to everyday low prices is not a success.
DEPARTMENT STORES						
Allied Stores [2] Cincinnati	Bon Marché, Maas Brothers, Jordan Marsh, Stern's	$2,974	($194) [3]	$251	N.A.	The stores are caught in the Campeau cash crunch.
BAT Industries London	Breuners, Ivey's, Marshall Field's, Saks Fifth Avenue	$2,643	$177	N.A.	N.A.	Stores are for sale as part of takeover defense.
Carter Hawley Hale Los Angeles	Broadway, Emporium, Thalhimers, Weinstocks	$2,787	$12 [4]	$160	N.A.	Another LBO overhaul. Still struggling to increase sales.
Dayton Hudson Minneapolis	Dayton Hudson, Mervyn's, Target	$12,204	$472	$231	1.0%	Well positioned in two niches: discount and department stores
Dillard Dep't Stores Little Rock, Ark.	Dillard's	$2,558	$173	$81	24.0%	This profitable traditionalist could pick up new stores cheaply.
Fed. Dep't Stores [2] Cincinnati	Abraham & Straus, Bloomingdale's, Burdines, Lazarus, Rich's	$4,542 [5]	($209) [5]	$651 [6]	N.A.	Campeau's cash cow is weak from the milking. An underperformer.
Hess Dep't Stores [7] Allentown, Pa.	Hess's	$614	$13	$17	N.A.	Developer-owner didn't bleed the stores. Looking to make a big purchase soon.
R.H. Macy & Co. New York City	Bullock's, Bullock's-Wilshire, I. Magnin, Macy's	$6,974	($47) [4]	$707	N.A.	The winner of the battle for Federated, which sold it Bullock's and I. Magnin.
May Dep't Stores St. Louis	Filene's, Foley's, Hecht's, Kaufmann's, Lord & Taylor, May Co., Robinson's	$11,525	$781	$254	18.0%	A middle-brow moderate that is dumping its discount store business.
Nordstrom Seattle	Nordstrom, Nordstrom Rack	$2,328	$198	$45	22.0%	For service it is without peer in the industry.
J.C. Penney Dallas	J.C. Penney, Thrift Drug	$14,833	$1,192	$351	8.7%	Woke up and smelled the coffee. Boldly moving into apparel.
DISCOUNTERS						
K mart Troy, Mich.	Builders Square, K mart, Pay Less Drug Stores, Waldenbooks	$27,301	$1,244	$346	7.8%	Still has a strong discount franchise but faces a tough slog against Wal-Mart.
Wal-Mart Stores Bentonville, Ark.	dot Deep Discount Drug, Hypermart USA, Sam's Wholesale Club, Wal-Mart	$20,649	$1,325	$136	30.0%	Merchandising machine doesn't show signs of running out of steam.
SPECIALTY STORES						
The Gap San Francisco	Banana Republic, GapKids, the Gap	$1,252	$126	$3	25.0%	Rebounding sharply after slipping on the banana.
The Limited Columbus, Ohio	Abercrombie & Fitch, Express, Lane Bryant, Lerner, Limited Stores, Victoria's Secret	$4,071	$396	$63	24.0%	Low debt, strong balance sheet, plus exciting store concepts.
Neiman Marcus [8] Chestnut Hill, Mass.	Bergdorf Goodman, Contempo Casuals, Neiman Marcus	$1,468	$44	N.A.	N.A.	Carter Hawley spinoff still has caché, particularly Bergdorf's.
Toys "R" Us Paramus, N.J.	Kids "R" Us, Toys "R" Us	$4,000	$429	$26	19.2%	Going global, including Japan. Toys "R" "U.S." to the Europeans.
F.W. Woolworth New York City	Foot Locker, Kinney Shoes, Kids Mart, Mathers, Richman, Woolworth's	$7,229	$444	$71	16.5%	The specialty store strategy is paying off.

* Sales are for retail operations only for the latest fiscal year, except where noted.
** Compound annual growth rate for pretax profits.
[1] Figures include businesses other than retail.
[2] Owned by Campeau.
[3] Not including asset sale.
[4] Before extraordinary items.
[5] Pro forma estimates.
[6] For nine months ended 1/31/89.
[7] Owned by Crown American.
[8] Owned by General Cinema.

JAY BROUSSEAU

No more the polyester paradise—the spiffy sales floor of a J.C. Penney in Addison, Texas.

The mass merchants like Sears will not survive into the next century in their traditional configurations. The newly vibrant J.C. Penney, once a general-merchandise also-ran, is going to be a winner in the 1990s because it has successfully repositioned itself as a department store. Says CEO William R. Howell: "If you begin to lose a franchise and you don't change, it's only a matter of time before you are without a purpose." And without shoppers.

Penney's new self dates back to the late Seventies, when an internal task force began to reevaluate the company. Penney's research told executives that consumers perceived the company as a kind of national department store that they could trust except for big apparel purchases. But why be thought of as a department store where customers went only for low-priced basics?

So beginning in 1983 Penney made two bold moves: First the company eliminated major appliances, hardware, and about $1 billion in sales. Last year it ditched home electronics, sports hardware, photography, and another $500 million in revenues. Meanwhile, Penney has almost doubled its women's apparel section to 49,000 square feet a store, and more than doubled its men's department. Once a polyester paradise, the company now sells $370 Harvé Bernard suits for executive women and similarly priced Daks suits for men.

Howell believes he can take Penney even further up the apparel pecking order if only he could get tony outfitters such as Ralph Lauren or Liz Claiborne to come aboard. (Penney *is* persistent. Levi Strauss cut off James Cash Penney in 1911 for discounting. Howell got the jeans back, 70 years later.)

Not only is Penney redoing its stores, but it is also revolutionizing its buying. More than half the company's merchandise comes from suppliers wired for electronic data interchange, a system that automatically replenishes merchandise. Howell says the number will reach 80% in the near future, and that by 1991 both vendors and sales clerks will have access to the same up-to-the-second information to better plan inventories and sales promotions.

SEARS ROEBUCK is also trying to bring off the repositioning trick. But its turnaround is contingent on convincing consumers that it really does have everyday low prices, and on paring the highest cost structure of any major retailer to levels the company has never before achieved. The five-year-old "store of the future" is being updated already. The new look is to put all merchandise into "power" departments, including appliances, electronics, children's wear, automotive supplies, and men's casual clothing. The "power" comes from the large size of the departments and the scope of the merchandise: more brands and more selections.

Says CEO Edward Brennan: "We are managing major changes in all aspects of the business." But the overhauled company is playing to less than favorable reviews. Says Carol Farmer: "The big question to ask about Sears is not *if* but *when*, and what sort of tidal wave will it create as it goes under."

Retailing is really about the communication of ideas and trends, but the cycle that runs from hot to old hat seems to get shorter each time. The Eighties brought the blossoming of warehouse clubs like Price Co., "category killers" like Toys "R" Us and Circuit City, and, of course, such catalogue merchants as L.L. Bean and Lands' End. Certainly the next decade will give birth to new, breakaway formats that will obliterate competitors in no time. Sad as it is to see fine old names go out of business, many will. And shoppers will be served better for it. ■

By the book: Hartmarx, the suitmaker, now will train department store help.

DAVID WALBERG

HANS WILDORF

These workers in Poland want to build a car for you. Fiat is talking about exporting a new model from this joint venture plant near Warsaw.

WHO GAINS FROM THE NEW EUROPE

Almost everybody does—and there's opportunity aplenty for deals. The combined GNP of East Germany, Hungary, and Czechoslovakia is bigger than China's. ■ *by Richard I. Kirkland Jr.*

WITH THE FALL of the Wall and the lifting of the Curtain, Western managers and investors must rethink their strategies for doing business in Europe in the 1990s. Suddenly the Old World has gained a new frontier. East of the Elbe, Communist parties are on the run. A year from now, or even sooner, most will probably be sharing power—and some may even be out. Freer politics inevitably will create freer markets.

The possibilities are huge. Among the 12 members of the European Community, the campaign to forge a true common market by the end of 1992 was already boosting growth rates and capital spending. Now, says Percy Barnevik, the lanky Swede who heads Switzerland-based Asea Brown Boveri (ABB), the world's largest heavy-engineering company, "the opening of Eastern Europe could prove even more important than the drive for a single market."

The combined GNP of East Germany, Hungary, and Czechoslovakia is larger than that of China. The three countries also have relatively well-trained and reliable workers who toil for less than a quarter of what their Western brethren are paid. Give them access to their developed neighbors' markets and hefty injections of Western capital, predicts Robert Hormats, vice chairman of Goldman Sachs International, and "they could become the tigers of Europe." Morgan Stanley chief equity strategist Barton Biggs believes that over the next five years East Germany could prove "the fastest-growing economy in the world." He advises buying West German and possibly Austri-

REPORTER ASSOCIATE *Mark M. Colodny*

ROBERT WALLIS—SIPA

Visitors from the East ogle a Mercedes-Benz on display in a tony showroom on the Kurfürstendamm, West Berlin's Fifth Avenue. One of these days . . .

an stocks as the best way to play this emerging market.

Who wins and who loses if the East's backward economies finally integrate into the global economy and take off? The right answer is everybody wins and nobody loses—except, of course, the political leaders who are toppling. Western Europe will find the gains especially sweet. At $43 billion last year, its exports to the Russians and their satellites were ten times larger than America's and more than 11 times larger than Japan's. West German companies will be the biggest winners, followed by the Austrians, Italians, French, and Finns.

American companies will benefit because they will be able to increase sales to a Western Europe made even more dynamic by its expanding Eastern frontier. Deutsche Bank chief economist Norbert Walter estimates that the 600,000 ethnic Germans and East Germans who have emigrated from Eastern Europe this year will add a full percentage point to West German consumer spending in 1990. Since West German factories are humming at full capacity, only a surge in imports will satisfy that demand. And in the slightly longer run, if peace really does break out between the superpowers, no Western economy—or stock market—ultimately stands to gain more from falling defense spending than America's.

Farsighted executives had their eyes on these opportunities well before the Berlin Wall blew open on November 9. In September, General Electric of the U.S. began negotiating with Hungary's reform-minded government to buy Tungsram, a state-owned lighting manufacturer with sizable exports to the West. By mid-November, GE Chairman Jack Welch had a deal. For $150 million GE bought just over 50% of Tungsram—plus an option to purchase 20% more if the company's exports can double. Says Welch: "We recognize that we are swimming in uncharted waters. But acquiring Tungsram gives us an entry into a part of the world that has been held primarily by Siemens and Philips. By positioning us for a Europe in which, down the road, East and West will blur, it helps us toward our strategic goal of being No. 1 in our global markets."

OTHER COMPANIES with long experience in the East are either expanding there or contemplating doing so. Fiat has licensed technology to Polish carmakers since 1921. In 1991, Poland's state-owned FSM will start exporting more than 50,000 subcompact Fiat Mickros to the West—the first time a completely new Fiat car has been built outside Italy. Fiat is also talking with FSO, another Polish automaker, and is on the verge of striking a giant joint venture deal with the Soviet Union.

MAP BY TONY MELACRINO

	POPULATION	GROSS NATIONAL PRODUCT			FORTUNE RATINGS		
	In millions	Total in billions	Per capita	Eight-year average annual growth rate	Economic potential	Receptivity to foreign investment	Speed of reform
MOST PROMISING							
East Germany	16.6	$155.28	$9,360	1.8%	A	C–	C
Czechoslovakia	15.6	$118.56	$7,600	1.3%	B+	B	C–
Hungary	10.6	$66.90	$6,300	1.0%	B	A	A
PROMISING							
Poland	38.0	$210.52	$5,540	0.7%	C+	A	A
LEAST PROMISING							
Bulgaria	9.0	$50.67	$5,630	1.2%	C	B	C+
Yugoslavia	23.6	$115.64	$4,900	1.2%	C	B–	B–
Rumania	23.0	$94.76	$4,120	0.0%	D+	C–	F
Albania	3.1	N.A.	N.A.	N.A.	D–	F	F

SOURCES: FRANKFURT, CIA ESTIMATES

ROBERT WALLIS—SPA

Bringing home booty from the West.

ABB is negotiating with two Polish turbine makers, Domel and Camech, to form joint ventures to sell components in both Eastern and Western Europe. Eastman Kodak two years ago set up a joint venture in Hungary that sells $5 million of film, cameras, and photo processing a year. David Harari, Kodak's manager for Eastern Europe, says he is discussing a deal with Poland "six to seven times larger."

Political leaders on both sides have barely begun to grapple with the challenges of melding Europe's postwar halves. How much aid should the Western allies offer the East, under what conditions, and in what form? What if demonstrators filling the streets of Leipzig or Prague, having won first an inch and then a yard, suddenly demand unlimited mileage—a complete break with the Warsaw Pact? How would Mikhail Gorbachev respond? Will reunification, or at least economic reintegration, of the two Germanys derail Europe's Project 1992 or merely slow it? And how and when should the U.S. and the Soviet Union bring troops home from Central Europe?

The uncertain outlook for Russia's perestroika—and thus Mikhail Gorbachev's survival—guarantees that Western investors in the East will have to live with higher than average political risk for at least the next decade. But political risk isn't the worry it used to be. The Communist bloc is so desperate for Western technology and capital that even if hard-liners regain control, they're unlikely to expropriate foreigners' factories or profits. That certainly did not happen in China after last June's Tiananmen Square massacre.

THE BIGGER RISKS are economic. If your host government is going to let inflation explode, fail to deliver vital supplies, and waste foreign loans on consumer subsidies, you might be wiser to reject his invitation. Hungary and Poland, which are the most eager to attract Western investment, are also among the East's biggest debtors. Forecasters at WEFA Group near Philadelphia estimate that the two countries' ratios of net debt to hard currency exports are 237% and 500%, respectively.

Partly because of their troubles—and because they have made the greatest strides toward democracy—the Poles and Hungarians are furthest ahead in introducing pro-market reforms. But will they go far enough? Given the gap between Eastern Europe's vast potential and its present woes, investors may feel confused. Here are tips from old hands in the region.

■ **Place affordable bets.** Says Dwayne O. Andreas, chairman of Archer Daniels Midland and an ardent advocate of more East-West trade: "It's like anything else. You don't risk the farm. You risk three acres." GE's $150 million purchase of Tungsram is the largest Western investment in Hungary since World War II. But that investment is less than 10% of what the company may spend buying back its own stock next year, and even smaller potatoes compared with GE's total capital spending budget.

■ **Do your homework carefully.** Four of the eight Eastern European countries don't even appear on most Western shopping lists (see table). Under longtime leader Nicolae Ceausescu, Rumania's once promising economy is on a quick march back to the 15th century—a century tiny Albania never left. Ethnic animosity and hyperinflation could tear Yugoslavia apart well before the next millennium. Bulgaria is at least trying harder, but it's a long way from Sophia to Vienna.

At the moment Hungary gives Western investors the most options. Some 850 foreign joint ventures with outside capital of roughly $1 billion will operate there by year's end. Many have begun in just the past 12 months. In addition, Hungary's ambitious new privatization program may well expand if, as expected, an even more pro-market coalition government comes to power in next spring's elections. Meanwhile, auditors from Price Waterhouse, Ernst & Young, and other major accounting firms are busily checking the books of Hungarian companies that plan to list on the East bloc's first stock market, scheduled to open in Budapest next year.

Though Poland shares Hungary's eagerness to attract Western capital, its economy—and its accounting practices—are both in much worse shape. Says economist Warren Oliver of the London brokerage firm UBS Phillips & Drew: "It's simply impossible to know what you're buying in Poland. I'd challenge GE's acquisitions department to make sense of the books kept by a Polish state industry."

OUTLOOK	
If it presses ahead with reforms, and gets massive West German aid and investment, could grow rapidly.	
The economy is relatively strong. Now that the hard-liners are out, his sleeper could awaken.	
Gives a warm welcome to Western investment. But big debts and low productivity will hamper growth.	
Inflation is soaring, debts are staggering, but Solidarity's proposed reforms are radical. Take a hard look.	
New leaders praise free elections, permit demonstrations, and promise reform. Could make modest progress.	
The economy is in desperate shape and ethnic strife is rising; the country could split apart in coming years.	
One of the last really nasty family dictatorships is destroying a once promising economy. Pray for a *Putsch*.	
Xenophobic, dirt poor, and constitutionally forbidden to borrow abroad. May be worth a look next century.	

JOE MCNALLY

GE Chairman Welch

What Poland's Solidarity-led government does offer is a breathtakingly radical plan to cut subsidies, free prices, and move quickly to a convertible currency. Says Deutsche Bank's Walter: "No Communist country has ever adopted a more conceptually convincing program for moving to a market-oriented economy. We must all look more carefully at what could happen in Poland." Because their break with the past is so sharp, the Poles can also expect big injections of Western aid. The U.S. Congress just approved an $852 million package, while West German Chancellor Helmut Kohl has promised at least $1.5 billion.

East Germany is almost everyone's favorite turnaround candidate. Though its economy has been hammered by the migration of many of its best young workers, that damage can be repaired quickly—if the Communists move to adopt fundamental reforms, including free elections. Should that happen, Jan Vanous, research director of PlanEcon, a Washington, D.C., consulting firm, believes the annual flow of private and public money from West Germany *alone* could "easily" top $10 billion and continue for at least a decade. Says he: "No other East European country can dream of this type of windfall from making the right political and economic moves. It would take real talent *not* to pull the East German economy above the average standard of living in the Common Market by the year 2000."

NORBERT NOE—CONTRAST/GAMMA LIAISON

GE bought 50% of this Hungarian light bulb plant.

■ **Don't leap into Eastern Europe without a hard-currency safety net.** You'll need some way to get your cash out. A system of fully convertible currencies won't emerge for several more years, possibly longer. If your main interest is serving the domestic market, creative bartering is still the only way to change your zlotys or forints into real money. For example, PepsiCo exports chairs from timber-rich Poland to its Pizza Hut franchisees in the U.S. in order to get profits out of its Polish bottling operations.

■ **Don't expect a quick payoff.** Says Juergen Aumueller, president of American Express Travel Services in Europe: "Patience is the key." Despite the current euphoria, no Eastern European country is moving from Stalinism to Thatcherism overnight. Outmoded plants and unpredictable supply lines will continue to make planning an art, not a science. Richard Norton, PepsiCo's vice president for Eastern Europe, figures lack of spare parts alone forces plants there to endure 20% more downtime than their U.S. counterparts.

Corruption will remain endemic, contacts essential. Unless you've got the in-house expertise to negotiate this morass, William Cornelius, director of trade policy for Dow Chemical, suggests it may be wise not to take a majority stake in an Eastern bloc joint venture. Says he: "Without at least 50% of the deal, your partner may not direct enough of his energies toward solving your company's problems."

■ **Above all, don't delay.** Start exploring the possibilities in Eastern Europe. The number of companies capable of competing successfully on world markets, as do Tungsram or Ikarus, a Hungarian busmaker, is larger than you might think—but it's still limited. Demand for these islands of efficiency is sure to rise. Smart investors, such as America's George Soros and Italy's Carlo de Benedetti, are already seeking out opportunities.

Japanese interest is also growing. Daihatsu, Japan's No. 8 automobile company, is talking with Poland's FSO about a joint venture that would produce 120,000 small cars a year, some for export to the Soviet Union and the West. Says Stewart White, a partner in the London law firm of Denton Hall Burgin & Warrens: "In our new Tokyo office the first question potential Japanese clients ask these days is whether we have expertise in East-West trade."

Early birds will also grab the best local managers. Peter Hargitay, owner of a private holding company in Zurich that specializes in communications, finance, and public relations, expanded into Hungary more than a year ago, just as the latest round of reforms were launched. By doing so, he was able to recruit Janos Fekete, the former head of Hungary's National Bank, as chairman of his subsidiary. Fekete also heads the commission advising Hungary's Parliament on future economic reforms.

As the world enters a new decade, a new Europe is emerging as well. What's in doubt isn't the trend but the timing. The day after the Berlin Wall split apart, David Roche, Morgan Stanley's top European equity strategist, advised his clients to immediately boost their stake in German stocks, despite the likelihood that an overheating economy could temporarily drive up interest rates. Explains Roche: "I'm trying to tell people where they're going to make money over the next five to ten years. Just as markets in the 1980s were defined by Reaganomics and Thatcherism, the 1990s will be defined by the shifting of the ideological plates that have separated the world's geopolitical land masses." Despite the difficulties that lie ahead, companies that aim to remain globally competitive shouldn't wait too long to invest either time or money in those changes. ■

BEHIND THE BATTLE OVER CHOLESTEROL

Some people with lots of the stuff live to be 90; others with far less die young. Here's why well-intentioned experts are disagreeing so noisily over what to do about it. ■ *by Stuart Gannes*

WOULDN'T IT BE NICE if all medical advice about life-and-death matters like heart disease were based on clear, unambiguous scientific evidence? But it's not. That disagreeable fact has left millions of people frustrated, especially given the new debate over what—if anything—they should do about reducing cholesterol, the waxy substance that builds up in the arteries and often causes heart attacks.

Must everyone worry about how much of the stuff is circulating in his blood? Or can some disregard it because of age, sex, or genes? Do diet and exercise always affect cholesterol? Who should take cholesterol-lowering drugs, especially the potent new ones that may have unknown side effects? Does cutting cholesterol really mean a person will live longer?

The answer to all those questions is a resounding maybe. That uncertainty is calamitous, because coronary disease is the No. 1 killer in the U.S. Of the 1.25 million Americans who have heart attacks each year, 300,000 never make it to a hospital alive and another 200,000 die within a month. Five million people suffer from angina pectoris, the recurring pain caused by partial blockage of coronary arteries.

The debate is important for economic reasons as well. Cholesterol is big business. Already more than 151 million Americans have had their cholesterol levels tested, at an average cost of $10. Sales of anticholesterol drugs are sizzling (see chart); the annual market will top $3.1 billion within five years, says analyst Neil Sweig, who follows the pharmaceuticals industry for Prudential-Bache. Leading products include Merck's Mevacor, Bristol-Myers Squibb's Questran, and Warner-Lambert's Lopid. With billions at stake, food companies from Kellogg to ConAgra are betting on the cholesterol-fighting properties of a gamut of goodies from psyllium husks in breakfast cereal to low-fat frozen enchiladas. Starting in February, the American Heart Association will stick a red-and-white "heart and check" seal of approval on food products that meet its fat and cholesterol guidelines.

No one disputes that high cholesterol counts correlate statistically with greater incidence of heart disease. Medical authorities agree that elevated blood cholesterol levels are potentially hazardous and that lowering them reduces the actuarial danger of heart disease, though not necessarily the real danger to a single individual. Although the odds favor cutting cholesterol, some people with high cholesterol counts live to a healthy 90, while others with far lower levels die prematurely of heart attacks. Says Daniel Steinberg, a professor of medicine at the University of California at San Diego: "We are not arguing about high choles-

JOHN W. MCDONOUGH

HIGH BLOOD CHOLESTEROL IS UNQUESTIONABLY A RISK FACTOR. IS IT HIGHLY PROBABLE THAT MANY PEOPLE COULD REDUCE THE RISK OF HAVING A HEART ATTACK BY LOWERING THEIR CHOLESTEROL LEVELS? THE ANSWER IS YES INDEED.

—DANIEL STEINBERG
Professor of Medicine
University of California at San Diego

YOU CAN'T PROVE THAT LOWER CHOLESTEROL LEVELS MEAN ANYTHING. THEY CERTAINLY DON'T IMPROVE MORTALITY RATES. HOW CAN YOU SAY THAT CHANGING THE DIET OF THE WHOLE COUNTRY WILL MEAN ANYTHING?

—ELIOT CORDAY
Professor of Clinical Medicine
University of California at Los Angeles

DAVID STOCK-DAVE

terol causing increased risk. The controversy is over how much effort should be put into lowering cholesterol levels."

Does it make sense to try to alter the way millions of Americans live in order to reduce the risk of heart attacks?

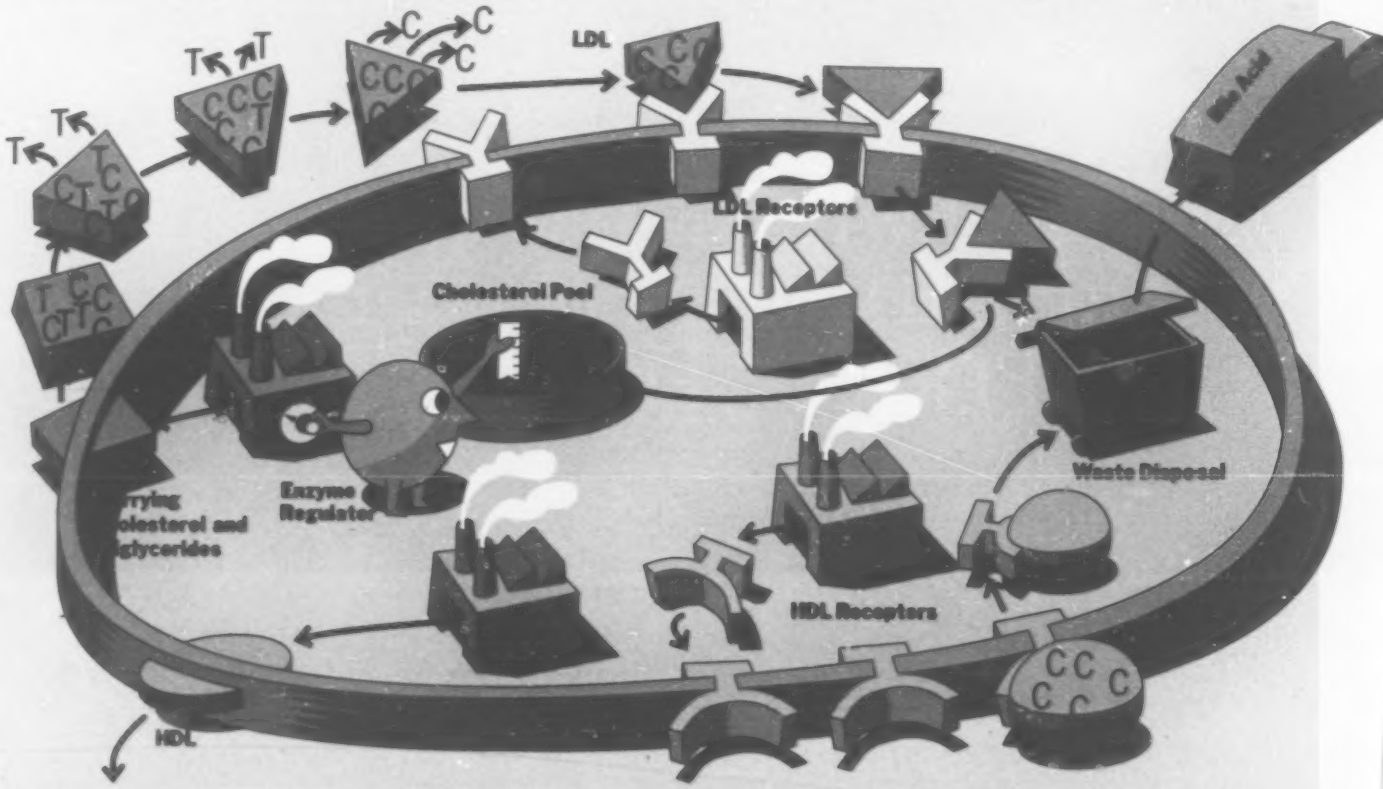
Yes, argues the federal government, which has thrown its weight behind the National Cholesterol Education Program (NCEP), which recommends that everyone over age 20 have his blood tested at least once every five years at his own expense and urges the 98 million Americans with counts above 200 milligrams per deciliter of blood to lower them with diet or drugs.

No, insists a diverse group of skeptics, who contend that a huge effort to cut cholesterol levels would not only waste vast amounts of time and money, but also unintentionally damage many people's health. Each side accuses the other of oversimplifying an exceedingly complex public health problem. Observes famed Houston heart surgeon Michael DeBakey: "Twenty-seven percent of the people I operate on for a coronary bypass have normal cholesterol levels. Their blood is as pure as the driven

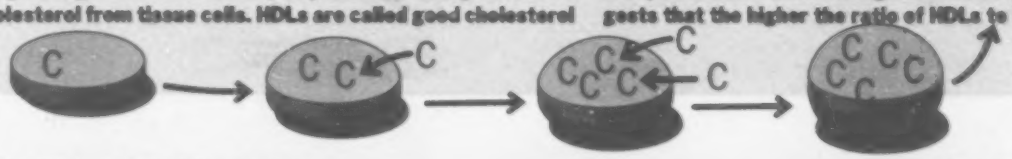
A CONSUMER'S GUIDE TO YOUR LOCAL CHOLESTEROL FACTORY

Some lucky people can eat all the deviled eggs they want without worrying about cholesterol. Others must keep to a strict diet in order to hold their cholesterol in check. Why? The liver—the body's cholesterol factory—regulates cholesterol in the blood by reducing its output whenever high-fat food comes its way. But for reasons not completely understood, in some people the liver fails to sense dietary fluctuations and continues to produce cholesterol at the usual rate. When that happens, blood cholesterol can rise to dangerously high levels, increasing the risk of heart disease.

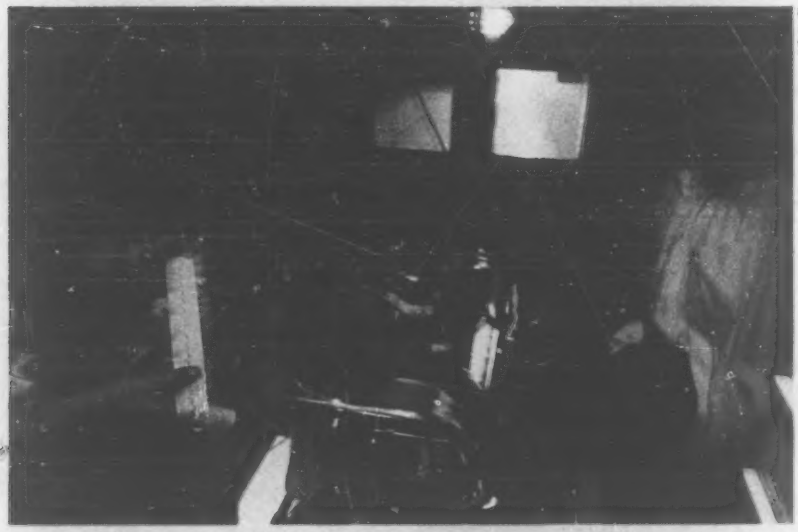
A liver cell produces cholesterol and loads it onto very-low-density lipoproteins (VLDLs) along with triglycerides, fats the body uses for energy (T in the diagram). In the bloodstream, VLDLs deliver triglycerides to tissues that need them. Gradually the VLDLs turn into low-density lipoproteins (LDLs), which distribute cholesterol, shown as C, throughout the body. Excess LDLs return to the liver, where an enzyme-controlled system recycles the remaining cholesterol or eliminates it as bile.



A liver cell also releases high-density lipoproteins (HDLs). Traveling through the blood stream, they have the ability to remove cholesterol from tissue cells. HDLs are called good cholesterol because they carry excess cholesterol back to the liver, where receptors admit them through cell membranes. Research suggests that the higher the ratio of HDLs to LDLs, the better.



THE SAFEST CITY FOR A HEART ATTACK



Seattle's emergency medical crews reach victims in an average of six minutes.

The single most critical factor in saving the life of a heart attack victim is how quickly blood resumes flowing through the coronary artery. The longer the heart goes without blood, the greater the damage. So your chance of surviving a heart attack is highest in places that have well-organized, well-equipped emergency medical services (EMS). According to Odelia Braun, medical director of the California Center for Pre-Hospital Research and Training, the best have 911 telephone links, ambulances and fire engines with defibrillation paddles for restoring heartbeats, and paramedics who accompany the ambulance and administer intravenous drugs if necessary.

What's the best U.S. city to have a heart attack in? Virtually every medical authority agrees that Seattle is No. 1. Says Braun: "Seattle pioneered in quick-response defibrillation and community classes in cardiopulmonary resuscitation. It has a sophisticated system, where the highest-trained personnel go out on the most critical calls. Paramedics send EKGs ahead by phone to physicians at the hospital, and administer appropriate clot-dissolving drugs while the patient is still in the ambulance."

Braun also gives top marks for emergency medical services to Austin, Texas; Columbus, Ohio; Eugene, Oregon; Houston; Milwaukee; Pittsburgh; Phoenix; and Salt Lake City. Urbanites aren't the only lucky ones. Braun considers EMS outstanding in most of rural Iowa and some parts of Kansas.

snow—but their arteries are clogged."

How can intelligent, presumably disinterested specialists disagree so diametrically? More than either side cares to admit, the squabble turns on the interpretation of statistics—the distinction between relative risk and absolute risk, for example. One much pondered study found that a particular drug treatment reduced the chance of having a heart attack by 12.5%, seemingly a substantial number. But the *overall* risk for those who went untreated was only 8%, vs. 7% for those who took medication.

Perhaps because some researchers consider the problem so pervasive and urgent, the data seem to them conclusive enough to merit pressing on with a sweeping, expensive national program. Though critics cite clinical studies showing that it's hard to lower cholesterol more than 10%, on average, by diet alone, proponents of cholesterol screening and treatment maintain that the whole population will benefit if cholesterol levels come down even 10% or less. What's more, they say, cholesterol testing will identify those who can gain the most from a reduction program.

Others look at the same numbers from a different perspective and reach a Scotch verdict: not proved. They contend that trying to change the cholesterol levels of large numbers of people cannot be justified on the basis of either efficacy or cost. Many medical researchers believe that reductions of 10% or less will produce only infinitesimal changes in overall mortality rates from heart disease. Drugs can lower cholesterol counts more than 10% for large numbers of people. But how many of those will medication keep from having heart disease? Perhaps as few as 1%, say the most skeptical.

HOLD THE OAT BRAN a moment. In all the furor, don't forget that cholesterol is good for you, within limits. It's a vital constituent of cell membranes, sex hormones, and the nervous system. Without it, says Dr. Richard Gregg, a research administrator at Bristol-Myers Squibb, "you would be a puddle on the floor." The body makes most of the cholesterol it needs—chiefly from the liver, though almost every other cell can manufacture it. The rest comes from diet. Food rich in saturated fats or cholesterol can drive up levels in the blood.

The biochemical mechanism by which cholesterol causes heart disease remains something of a mystery. Atherosclerosis, the medical term for coronary artery disease, can result when the blood contains too much cholesterol because of either diet or an inherited inability to get rid of it efficiently. Cholesterol attaches to the lining of the arterial walls and hardens into a damaging plaque. White blood cells attack the plaque, creating debris, and simultaneously the artery tries to heal itself by growing more lining cells. Both the debris and the new lining narrow the passageway. If a blood clot gets stuck and blocks the flow of blood to the heart, you can die in minutes.

So what cholesterol level is desirable? The consensus of the American Heart Association, the American Medical Association, and the NCEP is something below 200 milligrams, for all adults. That recommendation is based on statistical evidence gathered from a number of long-term epidemiological surveys. The most famous, conducted since 1948 using 5,127 residents of Framingham, Massachusetts, found that people with cholesterol counts of 240 or higher get heart disease nearly twice as often as those with readings of 200 or less.

continued

REPORTER ASSOCIATE *Jung Ah Pak*

An initial goal of the NCEP, launched in 1985 by the National Heart, Lung, and Blood Institute, is to have all Americans learn their cholesterol level. Next, it encourages people with a count between 200 and 240 to try to reduce it if they share two other risk factors for heart disease—they are male, a smoker, obese, or diabetic, or they have high blood pressure or a family history of heart disease. For starters, the NCEP recommends a low-fat, low-cholesterol diet. If that doesn't work, anticholesterol drugs may be called for. The same prescription holds for those with levels above 240 even if they have none of the other risk factors.

Explains Basil Rifkind, a cholesterol researcher at the institute, which is one of the National Institutes of Health: "The Framingham data show that at any level, higher cholesterol increases the risk of heart disease. We believe 200 is a feasible goal for most Americans. If you want to get the risk to disappear more or less completely, you would have to bring the level below 140."

CRITICS OF THE NCEP assert that the benefits of screening and treatment do not justify the cost for anyone except middle-age men with extremely high levels—most say above 240, others 300 or more. The debate got national attention in September with the publication of the book *Heart Failure* by journalist Thomas J. Moore. Reexamining a number of federally sponsored health studies, Moore noticed that researchers had failed to demonstrate that changes in diet could reduce cholesterol by even 10%. (Thus, anyone with a borderline-high cholesterol level of 230 could not realistically expect to get to the desirable range below 200 through diet alone.) He also questioned the assumption that lowering cholesterol would lengthen anyone's life—or even lessen the risk of heart disease in women, children, or the elderly.

"All of the risk factors we know about account for no more than 50% of the variation in the incidence of coronary heart disease."

Behind the campaign, Moore wrote, is "a medical version of the military-industrial complex" that includes both an overzealous pharmaceuticals industry and doctors' organizations like the American Medical Association. He estimated that giving drugs to five million people would cost billions annually, not to mention the outlay for 30 million to 100 million annual visits to doctors' offices and perhaps 100 million laboratory tests for cholesterol levels.

ANDY FREEBERG

Sonic imaging at Boston's New England Medical Center helps spot clogged arteries early.

Eliot Corday, a professor of medicine at the University of California at Los Angeles, is downright alarmed by the NCEP promoters. "They focus on cholesterol, but there are many other risk factors," he says. "They don't have the evidence, and for Christ's sake, you don't go to work on a billion-dollar program without the facts. It's crazy to make people so neurotic about cholesterol. This prudent-diet thing is not going to give them a day more of life."

ALTHOUGH 15 SCIENTISTS who do research on cholesterol have won Nobel Prizes, the relationship between diet and cholesterol is still only partly understood. Your forebears are important: Researchers say genetic factors explain why people on identical controlled diets have cholesterol levels that differ as much as 30%. Even so, says Peter Kwiterovich, a Johns Hopkins University scientist and author of the newly published *Beyond Cholesterol*, "all of the risk factors we know about account for no more than 50% of the variation in the incidence of coronary heart disease." Research continues at a furious pace. One paper presented at the American Heart Association's annual meeting in November contended that stress-reducing meditation and biofeedback techniques, combined with a vegetarian diet and exercise, could halt or even reverse arterial plaque buildup.

The most compelling research looks at ethnically similar people in different countries. A series of studies beginning in 1965 have compared Japanese in their homeland with Japanese Americans in San Francisco. Average dietary intake of fat and cholesterol in the U.S. group, far from coming close to typically low Japanese levels, equaled those of the average American. So did blood cholesterol—and deaths from coronary heart disease. In San Francisco some ten Japanese American men per 1,000 get heart disease every year. The rate in Japan: two per 1,000, despite the fact that the Japanese smoke more cigarettes and have higher blood pressure than Americans.

The government is about to begin a major study to determine whether women and the elderly of both sexes should follow the NCEP's recommendations. Research is sorely lacking on heart disease in women. A 40-year-old woman's chance of having a heart attack is only one-sixth that of a 40-year-old man. For women, cholesterol levels begin to accelerate around menopause, and so does the risk of a heart attack. By

THE BIG GLOBAL BUSINESS OF CHOLESTEROL DRUGS

DRUG/BRAND NAME Manufacturer	1989 EST. SALES (Millions)	1988-89 CHANGE	AVG. COST ANNUALLY TO USER	NUMBER OF USERS (Thousands)	EFFECTIVENESS	MAJOR SIDE EFFECTS
Lovastatin/Mevacor Merck	$520	+100%	$1,000	1,500	Lowers triglycerides 15%–27%, LDL 24%–39%	Headache, gas, diarrhea, abdominal pain, rash, diminished liver function
Gemfibrozil/Lopid Warner-Lambert	$290	+52%	$525	550	Lowers triglycerides 35%, LDL 11%; increases HDL 11%	Nausea, abdominal pain, gall bladder disease; evidence of cancer in lab animals
Cholestyramine/ Questran Bristol-Myers Squibb	$160	+28%	$810	210	Lowers LDL 20%	Constipation, abdominal pain, gas, nausea
Probucol/Lorelco Dow Chemical	$120	+18%	$775	160	Lowers triglycerides 13%	Nausea, diarrhea, gas, headache, lowering of HDL
Simvastatin/Zocor Merck	$75	*	$850	100	Lowers triglycerides 15%–27%, LDL 24%–39%	Headache, gas, diarrhea, abdominal pain, rash, diminished liver function
Colestipol/Colestid Upjohn	$25	+20%	$750	35	Increases triglycerides 53%; lowers LDL 33%, HDL 3%	Constipation, headache, dizziness, anorexia, fatigue
All Others	$160	+15%	$350	250	—	—
TOTAL MARKET	$1,350	+61%	$723	2,805		

*Introduced only in Sweden in 1988; awaiting FDA approval in the U.S.

SOURCES: PRUDENTIAL-BACHE SECURITIES ESTIMATES; BIOSCIENCE RESOURCE

The worldwide anti-cholesterol market is already more than $1 billion. U.S. government-backed programs for testing and treatment could multiply that many times over. The newest—and costliest—cholesterol-lowering drug is Merck's Mevacor, introduced in 1987, which already commands almost a 40% market share. It appears to have milder side effects than most of its competitors.

age 60, the sex difference in risk disappears entirely. But does that mean women should receive the same treatment as middle-age men? Nor do researchers know the physiological effects of cholesterol-lowering medications on women. Different drugs may be called for. One possibility: estrogen, which apparently keeps cholesterol levels down in women. It was tried on a group of men in the 1960s and abandoned because their heart attack rate went *up*.

Does lowering cholesterol increase the odds of longer life? In the major studies that investigated this issue, people with low cholesterol developed heart disease less often than those with high levels. But the overall mortality rate was the same for both groups. That outcome does not upset most researchers. Says Yale cardiologist Henry Black: "The important point is that coronary heart disease was reduced, not that total mortality wasn't. It's very likely that with longer observation total mortality will turn out to be reduced as well."

Critics warn against the increasing use of cholesterol-lowering drugs. In the past five years the number of Americans on anti-cholesterol medication has risen eightfold, from about 250,000 to two million. Yet a lifetime of drug therapy is expensive, and the side effects can include cancer—and even atherosclerosis. The drugs that have been studied the longest, including cholestyramine and nicotinic acid, are relatively safe. But many find the taste so awful or the side effects so unpleasant that they eventually give them up or take less than a full dose.

DeBakey: 27% of his heart patients have normal cholesterol.

A new class of drugs like Merck's Mevacor, known generically as lovastatin and introduced in 1987, are much easier to stomach. These potent compounds interfere with the liver cells' ability to produce cholesterol. Well over a million people are already on lovastatin, which alarms those who argue that the drug's long-term safety and effectiveness are still unknown. Another potential problem: Low cholesterol may be linked to increased incidence of cancer, gallstones, and strokes. Asks journalist Moore: "Can you change cholesterol levels drastically without upsetting the body? Nobody really knows."

THE DEBATE over how to treat high cholesterol is not likely to be resolved definitively anytime soon. For that to happen, says DeBakey, "we need to understand better how plaque develops in the arteries. In the history of medicine, every disease that has been solved turned out to be caused by a specific agent, such as a virus, bacteria, or a vitamin deficiency. So far we haven't found the cause of atherosclerosis."

The quest for answers about heart disease continues at a frustrating one-step-forward-two-steps-backward pace. A five-year Harvard Medical School study that ended in 1987 found that an aspirin every other day reduced the risk of a first heart attack by 44%. Now a more recent report warns that a daily dose almost doubles the incidence of one kind of heart disease in older men and women and has other serious side effects as well. It's enough to give doctors and laymen alike a splitting headache.